#1238

Senate Hearing

Before the Committee on Appropriations

COMPLETED
ORIGINAL

Chrysler Corporation Loan Guarantees Program

D 10-8-80

Fiscal Year 1980

96*th* CONGRESS, FIRST SESSION

SPECIAL HEARING

Department of the Treasury
Nondepartmental Witnesses

best copy available

(39)

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CHRYSLER CORPORATION LOAN GUARANTEES PROGRAM

HEARING

BEFORE A

SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS UNITED STATES SENATE

NINETY-SIXTH CONGRESS

FIRST SESSION

Printed for the use of the Committee on Appropriations

SPECIAL HEARING

Department of the Treasury
Nondepartmental Witnesses

U.S. GOVERNMENT PRINTING OFFICE

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I

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CHRYSLER CORPORATION LOAN GUARANTEES PROGRAM

THURSDAY, DECEMBER 20, 1979

U.S. SENATE,
SUBCOMMITTEE ON STATE, JUSTICE, COMMERCE,
AND THE JUDICIARY,
COMMITTEE ON APPROPRIATIONS,
Washington, D.C.

The subcommittee met at 9:20 a.m. in room S–128, the Capitol, Hon. Thomas F. Eagleton presiding.

Present: Senators Eagleton, Weicker, Hatfield, Stevens, and Garn.

DEPARTMENT OF THE TREASURY

STATEMENT OF ROGER C. ALTMAN, ASSISTANT SECRETARY FOR DOMESTIC FINANCE

SUPPLEMENTAL APPROPRIATION REQUEST

Senator EAGLETON. The subcommittee will be in order.

This morning the subcommittee is taking testimony on the supplemental appropriation request of $1,518,000 for the administrative expenses of the Chrysler Corporation loan guarantees program, and authorization for not to exceed $1.5 billion of total commitments to guarantee loans under this program. This request was transmitted by the President on November 30, 1979, printed as House Document 96–235.

Yesterday Representative Whitten, chairman of the House Appropriations Committee, introduced House Joint Resolution 467 which was marked up with amendments by the State, Justice, Commerce Appropriations Subcommittee of the House following their hearing on this matter. House Joint Resolution 467 will be considered by the full Committee on Appropriations over there at 9:30 this morning. A rule has also been approved providing for consideration of House Joint Resolution 467 at any time today by the House. It is expected that the joint resolution will be approved and sent to the Senate later today.

Over the last several days both the House and Senate have debated the authorizing legislation for the Chrysler loan guarantee program. A conference to work out the differences in the authorization bills and clearance by both Houses of that measure is expected before Congress adjourns for Christmas.

Chairman Hollings is undergoing eye surgery this morning and asked me to conduct this hearing so that the Appropriations Committee would be ready to respond to House Joint Resolution 467. I am happy to preside over this hearing as I am vitally interested in the Chrysler guarantee. While the loss of Chrysler would be a major blow to Detroit, it is also a major employer in the St. Louis area and Kokomo, Ind., for example, where Chrysler is responsible for three out of every seven jobs.

INTRODUCTION OF WITNESSES

Appearing on behalf of this request is the Hon. Roger C. Altman, Assistant Treasury Secretary for Domestic Finance; Mr. Gerald Greenwald, executive vice president and senior financial officer of the Chrysler Corp.; and Howard Young on behalf of the United Auto Workers.

To expedite the hearing, I will call all three of you to testify as a panel.

Senator Weicker, do you have an opening statement?

Senator WEICKER. I have no opening statement, Mr. Chairman.

Senator EAGLETON. Very well, we will proceed with you, Mr. Altman.

Mr. ALTMAN. With your permission, I would like my statement submitted in full in the record.

Senator EAGLETON. Without objection, it will be printed in its entirety at this point.

[The statement follows:]

STATEMENT OF ROGER C. ALTMAN

My testimony will discuss the administration's request for a full appropriation enabling the Chrysler Corp. Guarantee Board to guarantee payments of principal and interest on loans pursuant to the Chrysler Corporation Loan Guarantee Act of 1979. Such legislation has passed the House and is awaiting action by the Senate.

APPROPRIATIONS WITH RESPECT TO THE GUARANTEES

Mr. Chairman, the administration requests two actions concerning the guarantee authority enacted by the act: First, a one-time authorization permitting the Guarantee Board to issue guarantees of the principal and interest on the loans for the benefit of Chrysler in the full $1.5 billion principal amount contemplated by the Guarantee Act; and, second, a one-time appropriation of such sums as are necessary to make payments of principal and interest, if there is a default, on all of the loans which could be guaranteed.

The appropriated sums should remain available until December 31, 1991. All guaranteed loans must mature by December 31, 1990, and the extra time will allow for resolution of any dispute or litigation over a payment due in 1990.

Mr. Chairman, we seek immediate action on the authorization and the appropriation to help assure that the congressional aim of assistance—guaranteed and unguaranteed financing adequate to satisfy Chrysler's 1980–83 financing requirements—is achieved. As you know, Chrysler's financing plan and the various proposed bills require substantial commitments for unguaranteed financing assistance over the 4-year period. Yet, Chrysler has been unable to obtain such financing assistance. It appears that this inability will continue until enactment of Federal authorizing legislation.

In particular, obtaining these commitments will require prior enactment of a one-time basis appropriation authorizing issuance of the full amount of the guarantees and appropriating funds to honor these guarantees should doing so become necessary. It would be difficult to obtain the necessary long-term financing commitments if the Federal assistance is subject to periodic review and unrestricted withdrawal. Guaranteed lenders will be asked to make loans with maturities up to 10 years and would be hesitant to do so if the linchpin of this overall plan—the Federal guarantees require peri-

odic appropriations. Unguaranteed participants in the overall financing package will be reluctant to make commitments without the guaranteed financing being available.

Our experience in other guarantee programs of this nature, such as New York City, is that unguaranteed lenders insist on assurances that the Government has the full authorization to issue the guarantees and make payment on them in the event of default.

ADMINISTRATIVE EXPENSES

Mr. Chairman, the administration also requests a supplemental appropriation for fiscal year 1980 of $1,518,000 and 20 positions to enable the Board to administer the loan guarantee program established by the act. We will seek appropriations on an annual basis for the administration of the program, since this area does not raise the same need for a one-time appropriation of the guarantees themselves.

These funds and positions would permit us to set up the Office of Chrysler Finance and related support activities in the Treasury Department for the Guarantee Board. The Board will require staff and incur other costs to satisfy its responsibilities under the act. Those responsibilities will include participation in negotiation of Chrysler's long-term financing package, and the analysis of Chrysler's 4-year operating and financing plans necessary for the Board to make the determinations required by the act for it to issue guarantee commitments and guarantees. The Board will monitor closely Chrysler's operations and adherence to the terms of assistance through the full period that guarantee commitments and guaranteed loans are outstanding. Among its other responsibilities, the Board will prepare annual reports to Congress concerning its activities. The expertise necessary will also require contractual services from experts in the private sector which would also be met from this appropriation.

I would be pleased to answer any questions.

ADMINISTRATION REQUEST

Mr. ALTMAN. Essentially the administration has three requests of the subcommittee this morning. First, a one-time authorization permitting the Guarantee Board to issue guarantees of the principal and interest for the benefit of Chrysler in the full $1.5 billion principal amount and, second, a one-time appropriation of such sums that might become necessary to make payments of principal and interest on any loans which might default.

Finally, Mr. Chairman, the appropriation of $1.5 million to cover the anticipated administrative expenses for fiscal year 1980 under the Guarantee Act.

We are asking for immediate action on the authorization and the appropriation to help assure that the guaranteed and unguaranteed financing totaling $3.5 billion be put together as swiftly as possible.

As you know, the company's financing plan and the various proposed bills require substantial commitments for unguaranteed financing over a 4-year period. Yet Chrysler so far has not been able to obtain such financing. It appears that this inability will continue until there is both authorizing legislation and appropriation.

So we ask the committee to approve this request and the full Congress do so before the Congress adjourns.

I would like simply to emphasize the extent to which an appropriation of both the authority and a one-time $1.5 billion amount and sums that might be necessary to make payments under it, both of those points be included in the legislation.

We found in the New York City situation that, unless the appropriation is structured that way, it is particularly difficult to get long-term unguaranteed loans, to make the commitments—in this case over 10 years—which the bill requested.

So I urge the committee to adopt both of those provisions in the legislation which hopefully will be reported out today.

Mr. Chairman, that completes my prepared remarks. Of course, I will be happy to answer any questions you have.

Senator EAGLETON. We will hear all of the opening statements and then move to questions, but I will insert the justification materials in the record at this point.

[The justifications follow:]

DEPARTMENT OF THE TREASURY
BUREAU OF GOVERNMENT FINANCIAL OPERATIONS

CHRYSLER CORPORATION LOAN GUARANTEE PROGRAM

FISCAL YEAR 1980

SUPPLEMENTAL REQUEST

OFFICE OF MANAGEMENT AND BUDGET SUBMISSION

TECHNICAL SCHEDULES

DEPARTMENT OF THE TREASURY

BUREAU OF GOVERNMENT FINANCIAL OPERATIONS

Chrysler Corporation Loan Guarantee Program

For necessary administrative expenses as authorized by the Chrysler Corporation Loan Guarantee Act of 1979, $1,518,000.

(Additional authorizing legislation has been proposed.)

Statement of Purpose and Need

In accordance with the Administration's proposed legislative package entitled the "Chrysler Corporation Loan Guarantee Act of 1979", the Secretary of Treasury is responsible for establishing and administering a loan program for the Chrysler Corporation. To carry out these requirements an appropriation of $1,518,000 and 20 positions is requested for FY 1980.

Chrysler is the tenth largest industrial corporation in the United States. However, Chrysler is running out of money to meet its payroll and pay bills and its working capital has fallen dramatically in the past 12 months. In essence, Chrysler is having an increasingly harder time remaining a commercially viable, self-financing entity.

Chrysler's current predicament reflects the long term transformation of the United States auto industry and Chrysler's difficulties in coping with it. Meanwhile, the particular 1979 weakness in the auto and the truck industries has exacerbated Chrysler's problems. Chrysler's worsening financial situation has prompted some creditors -- both lenders and suppliers -- to withdraw or to seek to reduce credit in an attempt to protect their positions against a failure.

The alternative to a Federal aid program appears to be reorganization under the bankruptcy laws. Such reorganization would be costly. On the other hand, loan guarantees authorized now might prove to be costless if they are based on operating and financing plans which cause Chrysler to emerge from its present problems as a viable concern which no longer needs governmental assistance. Several key considerations that led to the recommendation of Federal financing assistance are as follows:

-- A Chrysler bankruptcy could cost the Federal Governmental for 1980 and 1981 a total of at least $2.75 billion, an amount that includes loss of revenues, unemployment claims, welfare costs, and other incidential costs.

-- There could be a serious impact on localities around the country, not only where Chrysler has plants but in places where automotive suppliers and dealers operate along with others who have an interest in this business. The risk of substantial unemployment and economic distress would severely impact state and local governments.

-- One has to take into account the cost to the Pension Benefit Guarantee Corporation on Chrysler's unfunded pension liabilities

of $1.1 billions which would ultimately be borne by other insured plans.

-- The need to maintain a competitive domestic auto industry. Without Chrysler, the two remaining major domestic producers would represent a very narrow competitive base. This would be especially troublesome given current concerns about the strength of the competitive process and the high barriers to entry. Chrysler has exercised an important competitive role in challenging GM, Ford, and others throughout the market, despite its current lack of profitability. Its recent producer success in the subcompact market is indicative of its competitive importance.

-- The potential loss of Chrysler's current, and planned increases in capacity in the small car market, at a time when the amount of small car, domestic capacity is critical for trade, environmental and other reasons.

-- Automobiles represent a crucial industry, competing on a worldwide basis. A Chrysler failure would have important, negative effects on the U.S. balance of payments because Chrysler's production would be displaced by substantial foreign imports. There could be a diminution of up to $1 billion per year through 1981 from increased imports, largely of supercompacts but also of other models.

The conclusion is that Chrysler can recover as a result of this proposed Federal financing assistance plan. It makes more sense than a reorganization in bankruptcy. It is not clear that the Company's consumer franchise could survive a reorganization in bankruptcy and that a viable automobile company could emerge.

Justification of the Request

To administer the Chrysler Corporation Loan Guarantee Program, Treasury is requesting $1,516,000 and 20 positions to set up the Office of Chrysler Finance and related support activities. The purpose of this office is to monitor closely the adherence of Chrysler Corporation to the intent of the Act to maximize achievement of the aims of assistance, while protecting the Government's position. To handle this function, the Office will perform the following tasks:

-- Review of Operating Plan. Before a guarantee commitment can be issued, Chrysler must submit a satisfactory four-year Operating plan (including budget and cash flow projections) for the 1980 fiscal year and the next succeeding three fiscal years which demonstrates that the Company will emerge viable and self-financing thereafter. In addition, Chrysler will update the Operating Plan and will prepare reconciliations between actual performance for that fiscal year and the Operating Plan. The analysis of these plans and reports by the Office of Chrysler Finance will be one of the key determinations to be made. Functions involved in endeavor will be the inspection of accounts, books, records, transactions, and other financial documents of Chrysler and any other financing agent for which an application for a guarantee has been made.

-- Review of Financing Plan. Chrysler must also submit a satisfactory Financing Plan to meet the financing needs of Chrysler as reflected in the Operating Plan for the period covered by the plan. This plan must include an aggregate amount of non-federally guaranteed assistance of at least $1.5 billion from financial commitments or concessions from persons with an existing economic stake in Chrysler. This plan must be accompanied by satisfactory assurances of feasibility and be updated annually so long as any guarantees are outstanding. Loans may only be guaranteed up to $1.5 billion and any guarantee must be matched by non-federal loans or concessions. Therefore, the Office of Chrysler Finance will be responsible for review of the Financing Plan to assure its soundness and accuracy.

The Office will determine those items and amounts that may be included in satisfying the non-Federal aid requirement, except that to the extent practicable, the commitments should be commensurate with the financial stake in the corporation.

-- Findings of Reasonable Prospect of Repayment. Before committing and issuing guarantees, the Office of Chrysler Finance must determine that there is a reasonable prospect for the repayment of a guaranteed loan. In addition, the guaranteed loans must mature by 1990, in order to preclude Chrysler's long-term dependency on Federal aid.

-- Payments to the Government. The Government will receive a return for its participation. At a minimum a guarantee fee of least one-half percent per annum on the outstanding principal amount of loans guaranteed. In addition, the Secretary of Treasury can also negotiate additional compensation, which may be other than cash. All amounts collected by the Secretary of Treasury will be deposited in miscellaneous receipts of the Department of the Treasury. If the program is successful, it will produce no direct cost to the Government.

-- Reports to Congress. The Office of Chrysler Finance will submit to the Congress annually a full report with respect to its activities.

In addition, the functions of this Office will include assessing and analyzing the economic merits and implications of the courses of action available to the Secretary to carry out his responsibilities under the Act; e.g., in the event that Chrysler defaults or materially departs from the terms and conditions of the Act. To execute its functions the Office will maintain liaisons with other Executive agencies, the Congress, the General Accounting Office, and representatives of Chrysler. Responses to inquiries and correspondence, Congressional testimony, briefing paper, and other documents or position papers will be prepared by this Office to keep all interested parties informed.

Recognizing that it would not be reasonable or cost effective to put in place in the the Treasury Department all of the expertise necessary to conduct this activity a large percentage of funds requested will provide for contractual services with experts in the private sector. For example, a private accounting firm will be contracted to assist the Office of Chrysler Finance in administering the Loan Guarantee Program. Other contracts will be used to provide legal services, auditing of financial documents, and advising the Treasury on other aspects that are outside the expertise of the staff of the Office of Chrysler Finance.

Program and Financing (in thousands of dollars)

Identification code 20-0113-4-1-376	FY 80 actual	FY 80 estimate	FY 80 estimate
	Presently available	Revised estimate	Proposed Supplemental
Program by activity:			
10.00 Administrative expenses (costs-obligations) 1/	---	1,518	1,518
Financing:			
40.00 Budget authority (appropriation)	---	1,518	1,518
Relation of obligations to outlays:			
71.00 Obligations incurred, net	---	1,518	1,518
74.40 Obligated balance, end of year	---	-106	-106
90.00 Outlays	---	1,412	1,412

1/ Includes capital investment for FY 1980, $50 thousand.

DEPARTMENT OF THE TREASURY
BUREAU OF GOVERNMENT FINANCIAL OPERATIONS
CHRYSLER CORPORATION LOAN GUARANTEE PROGRAM

Program and Performance

The "Chrysler Corporation Loan Guarantee Act of 1979", pending before Congress, authorizes the Secretary of the Treasury to guarantee up to $1.5 billion of Chrysler Corporation debt. Chrysler is the tenth largest industrial corporation in the United States and needs Federal Assistance on financing matters so that it might again be able to reemerge as a commercially viable, self-financing entity.

In accordance with the proposed legislation, the Secretary of the Treasury is responsible for establishing and administering a loan guarantee program for the Chrysler Corporation. These responsibilities include: (1) review of the Financing plan to assure its soundness and accuracy, (2) determination of the prospect of repayment of a guarantee loan, (3) assessment and analysis the economic merits and implications of the courses of action available under the Act, and (4) report to Congress annually on Chryslers' activities.

Current authorization of this program does not exist. Legislation, however, has been introduced to Congress and is pending action.

OBJECT CLASSIFICATION (in thousands of dollars)

Identification code 20-0113-4-1-376	19 80 actual	19 80 estimate	19 80 estimate
	Presently available	Revised estimate	Proposed Supplemental
Personnel compensation:			
11.1 Permanent positions	---	307	307
11.3 Positions other than permanent	---	4	4
11.5 Other personnel compensation	---	10	10
[illegible]			
Total personnel compensation	---	321	321
Personnel benefits:			
12.1 Civilian	---	29	29
[illegible]			
21.0 Travel and transportation of persons	---	34	34
[illegible]			
23.0 Rent, communications, and utilities	---	45	45
24.0 Printing and reproduction	---	16	16
25.0 Other services	---	1,008	1,008
26.0 Supplies and materials	---	6	6
31.0 Equipment	---	59	59
32.0 [illegible]			
33.0 [illegible]			
41.0 [illegible]			
42.0 [illegible]			
43.0 [illegible]			
44.0 Refunds			
99.0 Total obligations	---	1,518	1,518

PERSONNEL SUMMARY

Identification code 20-0113-4-1-376	19 80 actual	19 80 estimate	19 80 estimate
	Presently available	Revised estimate	Proposed Supplemental
Total number of permanent positions	0	20	20
Total compensable work years	0	12	12
Full-time equivalent of other positions	(0)	(0)	(0)
Full-time equivalent of overtime and holiday	(0)	(0)	(0)
Average GS grade	---	10.84	10.84
Average GS salary	---	24,736	24,736
Average ES salary	---	44,756	44,756

READEX FICHE

DETAIL OF PERMANENT POSITIONS

	1980 actual	1980 estimate	1980 estimate
	Presently available	Revised estimate	Proposed Supplemental
ES-16	---	1	1
Subtotal	---	1	1
GS/GM-15	---	3	3
GS/GM-14	---	2	2
GS/GM-13	---	3	3
GS-12	---	3	3
GS-11	---	1	1
GS-9	---	1	1
GS-8	---	1	1
GS-7	---	1	1
GS-6	---	3	3
GS-5	---	1	1
Subtotal	---	19	19
Total permanent positions	---	20	20
Unfilled positions, end of year	---	---	---
Total permanent employment, end of year	---	20	20

SUPPLEMENTARY SOURCE DOCUMENT (In thousands of dollars)

Identification code 20-0113-4-1-376	Function	Line No.	Def. (D) / Mand. (M)	Leg. (L) / Neg. (N)	1979 actual	1980 estimate	1981 estimate
A. ANALYSIS OF BUDGET AUTHORITY AND OUTLAYS							
Budget authority	376	40.00	D	N	---	1,518	1,320
Total					---	1,518	1,320
Outlays	376	90.00		N	---	1,412	1,334
Total					---	1,412	1,334
Memorandum entries:							
Appropriation to liquidate contract authority							
Limitations:		0					
		0					
		0					
		0					

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50017

55-727 O - 80 - 3

Treasury account code	7 79	80	81
20-0113-4-1-376	actual	estimate	estimate

II. DISTRIBUTION OF OUTLAYS

	Line code			
From new authority—current	411	---	1,412	1,228
From new authority—permanent	412	---	---	---
From obligated balances	413	---	---	106
From unobligated balances	414	---	---	---
From new appropriations to liquidate contract authority (memo entry)	415	---		

I. CHARACTER CLASSIFICATION

	Function Code		Character code			
Budget authority	376	1	3300-04	---	1,518	1,320
		1				
		1				
		1				
		1				
		1				
		1				
Total					1,518	1,320
Outlays	376	2	3300-04	---	1,412	1,334
		2				
		2				
		2				
		2				
		2				
		2				
Total				---	1,412	1,334

NONDEPARTMENTAL WITNESSES

CHRYSLER CORPORATION LOAN GUARANTEES PROGRAM

STATEMENT OF GERALD GREENWALD, EXECUTIVE VICE PRESIDENT AND SENIOR FINANCIAL OFFICER

SUPPORT FOR PROGRAM

Senator EAGLETON. Mr. Greenwald?

Mr. GREENWALD. Thank you, Senator. I have a brief statement. With your permission, I would like to read it through. I will try to be quite brief.

Mr. Chairman, members of the subcommittee, I am here to urge you to vote the full $1.5 billion in loan guarantee authority authorized under the Chrysler Corporation Loan Guarantee Act of 1979.

As you know, the Chrysler Corporation has requested Government assistance in order to tide it through a period of severe cash shortfalls which have resulted from a sharp drop in sales revenues at a time when Chrysler and the rest of the automotive industry, must make massive investments to convert its facilities to the more fuel-efficient vehicles of the future.

We expect the picture for Chrysler, and the rest of the industry, to turn around within a couple of years as this massive reconversion process nears completion and we bring additional capacity on line to produce our new lines of small fuel-efficient front-wheel-drive cars.

Chrysler expects to return to profitability in 1981 following introduction of our front-wheel-drive compact K car next fall. But for the moment we are losing money. We expect our losses to total over a billion dollars this year, and our cash needs will continue to grow until 1982–83 because our investment program must be kept on schedule.

Our ability to raise private funds is at its limit, and as I believe you are aware, we are now projecting that without Federal assistance, we are unlikely to continue in operation past January.

We are gratified that the House voted by a 2-to-1 margin to make the Federal assistance available and that the Senate has now approved a loan guarantee bill. We are working 7 days a week to put together a complete financing package that will meet the terms of this legislation.

IMPORTANCE OF LOAN GUARANTEE AUTHORITY

As you know, no guaranteed loans can be made until all of this nonguaranteed financing is lined up. But I would like to stress the importance of obtaining the full $1.5 billion in loan guarantee authority now. This is important for two principal reasons. First of all, our cash needs will grow very quickly this coming year. We foresee a total shortfall in 1980 of over $1.5 billion. So we could need a very sizable portion of the Federal guarantees in the first year of the program, and we need to have them ready for that eventuality.

Second, even if the full amount of the guarantees is not needed in 1980, it is important to have the psychological reassurance of the full guarantee authority when we head into the crucial financial negotiations ahead with all of the various parties having an interest in Chrysler's future whose assistance we will need to make the whole package work.

This week's House and Senate actions were the first step toward helping to dissipate the clouds that have been hanging over Chrysler's future. I would hope you would carry that one step further, and would urge you to recognize both the practical and the psychological benefits of voting for the full guarantee authority.

MERITS OF ASSISTANCE TO CHRYSLER

Having said that, I would simply request that you consider our case on its merits just as the House and Senate have done. I do not believe it is my place to recapitulate all of the points that have been made, for I think you are probably aware of the major arguments for assistance to Chrysler, from the $2.75 billion increase in the Federal deficit to the half-million people unemployed, the devastating effect on the Detroit area, and the increase in the balance of payments deficit by from $1 to $3 billion.

I hope we have successfully countered the arguments that Chrysler's facilities and employees would simply be absorbed by other manufacturers. I would urge you, if you have not already done so, to examine the report by the Department of Transportation that found after a careful study of Chrysler's facilities, that only four or five were realistic candidates for purchase by other firms, and that retained employment at those plants would amount to only about 12,000 workers. The DOT study also showed that Chrysler workers would not be hired by Ford or GM because those companies do not have nearby plants that would require the skills of the unemployed Chrysler workers.

All of those points are important. From our perspective, though, the chief point is that Federal assistance can keep Chrysler going as a vigorous competitor and as a company that produces the cars this country needs. We are already selling as many front-wheel-drive Omnis and Horizons as we can produce.

Those subcompacts represent the first of the three all-new families of front-wheel-drive cars that Chrysler will produce for the 1980's. The second family—the compact K cars—will come out next fall. We know that we will be successful with the K cars because they will be directly competitive with GM's X cars, which are virtually sold out for the entire 1980 model year.

In all, by next year we will have the capacity to offer 1 million small front-wheel-drive cars. But without help now we would be unable to produce those cars. Nor could Ford or GM, because their small-car plants are already running at full capacity. The result would be that foreign manufacturers would increase their penetration in the compact and subcompact segments. By the time Ford and GM were able to expand their small car production, it would be too late to win back all of that expanded foreign share. As a result, according to a study by Data Resources, Inc., total U.S. industry production would drop and 200,000 to 300,000 American jobs would be permanently lost overseas.

We have been fighting very hard here in Washington to prevent that from happening. Believe me, we don't like being here asking for this help, but we feel that given the alternatives, Federal assistance at this time is the only reasonable alternative, and will best serve the American people.

Thank you for your attention. I would be happy to answer any questions you might have.

UNITED AUTO WORKERS

STATEMENT OF HOWARD YOUNG, UNITED AUTO WORKERS

SUPPORT OF PROGRAM

Senator WEICKER [presiding]. Mr. Young?

Mr. YOUNG. Thank you very much. I appreciate the opportunity to be here. In view of all the discussion of the Chrysler legislation in the past several days, I will be brief and will just mention our major interest and the problem that would result from the Chrysler failure would be the impact on employment, on the communities in which the plants are located and upon the total budget and national economy. Obviously we can go into that in more detail if necessary.

One aspect of this entire rescue operation has been that it has suffered from the kind of check and wait syndrome in which everyone else has waited for everyone else to make the next move. I would only urge that it is essential that Congress complete this week, hopefully today, all the actions that are necessary so that the control board will be in a position to issue the guarantees when all the other conditions are met.

Thank you very much.

REQUIREMENT FOR BRIDGE LOAN

Senator WEICKER. Thank you. I will direct my first question to all members of the panel for response from their particular vantage point.

During the course of the debate on the Chrysler loan, the corporation has consistently stated that without a bridge loan that, indeed, the package of Federal assistance might be too late. That has been Chrysler's position publicly.

I know it was their position privately during negotiations over the past several days.

Now, the fact has been established, both by virtue of the vote on the Senate floor, and by virtue of the agreements arrived at as between the various Senators representing the various interests, there will be no bridge loan. Not out of the conference, not out of this Appropriations Committee and has already been established, not off the Senate floor.

That being the case, and in light of the statements of Chrysler in the past—I might add the position of the UAW position is the bridge loan is necessary—now I would like to get the reaction, first of Chrysler, then of Treasury Department and then UAW, to the fact there will be no bridge loan and, naturally, the question has to arise before the Appropriations Committee as to whether or not then in light of those statements, the package that is being delivered by the Congress is in effect moneys wasted.

Mr. GREENWALD. If I may, I would like to try to respond to your question, Senator. From the standpoint of the Federal Government, not 1 penny of the guarantees will be at risk when and if—actually I should say if Chrysler is not successful at putting together its own, in the private sector, its own form of bridge financing simply because before the first guarantees go into place, the full financing package in the private sector and from State and local governments also has to be in place.

The problem, as we see it, is to be able in the private sector to convince some of the constituents involved that it is worth taking the risk in the time frame of January, February, and March to provide additional funds and in so doing take the risk with us that that final financing package will fall into place because if it doesn't, obviously those who have taken such a risk are exposed to losing more than they are now exposed to losing.

And there are several alternatives that we have been working on and are continuing to work on toward that end. The existence of the law will help to encourage those same risk takers.

At this moment, while I would like to be more confident, I can only say to you that we are applying 7 days a week, dealing with several alternatives with this end in mind.

EFFECT OF ABSENCE OF BRIDGE LOAN

Senator WEICKER. Do you feel, then, even without the bridge loan that you are going to be able to put the necessary package together?

Mr. GREENWALD. I cannot tell you with total confidence today that it will all go into place. It is for that very reason that we have been suggesting a bridge loan feature in the Federal aid bill, because we were of the opinion that a bill that has the certainty of success should be cast in law. We are now in a condition in which we must operate in an environment of uncertainty until that bridge money goes into place in the private sector.

Mr. ALTMAN. Senator Weicker we are of the view the corporation will be able to obtain on its own adequate financing for its first quarter capital needs. I agree with Mr. Greenwald no one can assure the subcommittee that the package without the bridge loan will work. However, we opposed the bridge financing, because we felt the corporation can get sources of financing on its own and the passage of an authorizing legislation which would assure the company's long-term financing should provide sufficient impetus to a variety of private sources to apply short-term financing. We felt it was inappropriate to change the basic principle that underlies our proposal to Congress on Chrysler, which is that no guarantees should be issued or no Federal taxpayer credit extended until a large amount of unguaranteed long-term funds obviously at risk, are committed.

The taxpayers should be in a position first investing in the company and then the private sector. We believe the private sector will do so. Maybe they won't. You have the taxpayers investing first and then waiting to see if private sector——

Senator WEICKER. Do you have any comments, Mr. Young?

Mr. YOUNG. Only that obviously it would have been easier if the

bridge loan had been cast. I think the assurances the Secretary and the Treasury gave last night our assumption is the program will fall into place and I think in terms of the interest of the Government the lack of a bridge loan does not increase the risk because none of the guarantees would be extended.

AUTOMOBILE WORKERS' PRODUCTIVITY

Senator WEICKER. Senator Hatfield? Senator Garn?

Senator HATFIELD. I would just like to put a question to UAW. Are there any plans to improve productivity in the Chrysler plan? You look at the overall trend of American productivity and see the failure to relate any wage increase settlements to increased productivity over the last decade.

Obviously one of the problems of inflation today is we are putting too much money into the economy for what we are getting out of it, and especially in this particular unique case, I wonder if UAW is going to demonstrate some leadership in trying to reverse this American trend in low productivity?

Mr. YOUNG. Well, we have no information, Senator, about productivity measures at the Chrysler Corp. itself. But we have no reason to believe that the corporation's productivity is significantly different from that of the motor vehicle industry generally.

Senator HATFIELD. It is all poor, in other words.

Mr. YOUNG. No, sir, it is quite good. While last year there was a drop in productivity in the auto industry, according to BLS statistics that is one of the cyclical things that does happen from time to time. If you look at it over any period of time, for example, over the last 4 years, the average productivity increase in the motor vehicle industry has been 5 percent a year, which is an amazingly high figure.

COMPARISON TO FOREIGN PRODUCTIVITY

Senator HATFIELD. How does it compare with the Japanese?

Mr. YOUNG. The Japanese rate of productivity increase is reported to be higher than ours, but their level of productivity is lower than ours.

Senator HATFIELD. Germany?

Mr. YOUNG. Germany, too. I think the public figure which captures the attention is the rate of growth in productivity rather than the level of productivity. All the figures we have seen are that U.S. productivity for motor vehicle and other industries are higher than absolute levels than in foreign countries.

As far as the position we have taken, the UAW has never opposed productivity increases. We have worked toward productivity increases, we understand our wage real increases come out through productivity. We encourage the companies, or at least not discourage them from moving into automation, from revamping assembly lines, from doing things—the Omni and Horizon plant, for example, in Chrysler, is one of the most highly automated in the automobile industry. We have not opposed that.

What we have always said is that workers have to be protected from

the short-range dislocations that take place as productivity improvements are made. But we have every intention of continuing to move toward whatever productivity increases we can achieve.

Senator HATFIELD. I commend you and encourage you to extend that kind of leadership.

Mr. YOUNG. Thank you.

UAW'S POSITION ON SENATE PROPOSAL

Senator GARN. What is the UAW's position on the Senate version of the loan guarantee?

Mr. YOUNG. The requirement that the total concessions be $525 million is, in our view, excessive, and we would hope that the conference committee will come out with a figure much closer to the figure which the House passed and which the Senate approved only yesterday and obviously we will have to wait and see how it comes out.

Senator GARN. Mr. Fraser on TV last night said it is absolutely unacceptable to him. I am a member of the conference. We meet this afternoon. I hope there is not too much push to maintain the House version because we can still run into difficulties. This thing could have gone either way last night, I assure you. We are on very thin ice. Many Senators could have gone into full-scale filibuster into January but they withheld.

Some of us felt from the very beginning the Banking Committee's version was the fair one. I am not going to repeat all my speeches in the Banking Committee. I really think when people are offered a choice between the dire consequences of no job at all and being able to gamble on wage increases I have a hard time and that is the reason I voted against, because I do not feel there is sufficient sacrifice.

I do not want people to feel now we are just going to cave on the Senate side. I intend to go there and work as hard as I can for the Senate position. So I just wanted to ask that question and send that particular message.

I hope you think it is more important that Chrysler have a bill than for you to fight too hard for the House position.

Thank you.

PROVISIONS REGARDING DIVIDENDS

Senator WEICKER. I have one last question before turning it back to the chairman. And this goes to Mr. Altman.

Recently we—and by that I mean the Subcommittee on State, Justice and Commerce—learned that Wheeling-Pittsburgh, for whom we approved an EDA steel loan guarantee, declared a special $1 dividend on their stock. This was after we had gone ahead and approved that loan. That is a little strange, and a little hard to explain to our constituents when that happens.

I am wondering if there is any provision in the authorization bill which prohibits Chrysler from paying dividends.

Mr. ALTMAN. As I understand it, both the House and Senate bills prohibit the payment of dividends during the period that any loan guarantee is outstanding. Therefore, the conference report and the final legislation will include that prohibition.

Mr. GREENWALD. Senator, if you don't mind, may I comment?

Senator WEICKER. Please.

Mr. GREENWALD. I would only like to point out that to our way of thinking, there is an important difference between common stockholders and the dividends they receive and preferred stockholders and the dividends that they receive. As Mr. Altman has described, both the House and the Senate do prohibit all dividends for as long as the guarantees are in place, which, as we see it, virtually locks out for us the prospects of going—and we had in mind going primarily to our suppliers and dealers and to develop as much as $400 million of preferred stock money by offering a dividend to that group, albeit a modest dividend of about 8 percent which is in our terms another form of borrowing money at very much cheaper rates.

I only describe that with the idea in mind that if we can find some way of developing a plan that develops a substantial amount of money and, therefore, represents a better alternative than some other forms of developing money, then we might be in a position to present it sometime in the future.

Senator WEICKER. I should say this, that position was very eloquently portrayed to the Senate by Senator Eagleton. In the course of making certain we do get a bill out of here, that is one of the concessions that was made. It is very difficult—I repeat very difficult, it is not our money we are dealing with. It is just one of those matters of image and perception, which to the man on the street goes beyond the pale.

I understand the arguments you are putting forth, the point of view of the financial community. It is the man on the street having to put up his money who somehow will not understand why it is his money that should be used for dividends. To put your people to work, he understands that. Dividends, that is very hard to comprehend.

But in any event, I just wanted you to know, you have been eloquent, but this fellow here is twice as good.

CAPITAL INVESTMENT PROGRAM

Senator EAGLETON. Thank you. I have a few questions I would like answered for the record.

Can you summarize the degree or rate of your capital investment program in regard to the conversion to production of front-wheel-drive compact K cars? How does this relate to your profit margin?

Mr. GREENWALD. Our 1980 capital spending program is concentrated on that K car. It is a front-wheel-drive, fuel-efficient modern car which will be launched in the fall of 1980.

We are in total as a corporation, we are spending at a rate of about $160 million a month concentrating that funding on that K car and it is for that reason that our capital requirements will in 1980 be as high as, it will be perhaps slightly higher than $1.5 billion.

CHRYSLER'S PROFIT MARGIN

Senator EAGLETON. How does this relate to your profit margin?

Mr. GREENWALD. With the K car in place, our profit margins will

improve dramatically because in the process of achieving fuel economy, we are taking weight out of that car and with the reduction of weight comes reduced costs.

WORTH OF CHRYSLER'S ASSETS

Senator EAGLETON. At yesterday's House hearing, Mr. Greenwald, you indicated Chrysler had not been able to find anyone to merge with or sell out to—pardon that English. Your statement indicates that not more than four or five of Chrysler's facilities are of interest to other auto manufacturers. If that is so and if so little of Chrysler's assets are considered valuable, how good then is the provision of the authorizing bill that these loans will be fully collateralized?

Mr. GREENWALD. Even though many of our plants would not be prospects, rather companies, the fact remains that in total, as a corporation, we have assets subject to being offered for security of $7 billion made up of fixed assets, investments, inventories and receivables. And among that total there is more than adequate security that can be arranged.

INTEREST RATE ON GUARANTEED LOANS

Senator EAGLETON. What rate of interest is expected to be charged by the private bankers for these guaranteed loans?

Mr. GREENWALD. Senator, first, we have yet to determine to whom we will go to borrow that money, and our prospects go beyond the commercial banking industry. But our expectations would be that we would be in a position to borrow in such a way that the combination of the interest rate we would pay and the guarantee fees that we would be paying to the Federal Government would about be equal in total to the amount of interest we otherwise would have paid going out in the market.

Mr. ALTMAN. I would like to add to that. The legislation requires that the Loan Guarantee Board set the interest rate on guaranteed loans. The rates will represent a premium over the Treasury borrowing cost, not a large premium. So that the corporation, in terms of guaranteed loans, will be borrowing around the Treasury loan cost.

AVAILABILITY OF FUNDS FOR CHRYSLER

Senator EAGLETON. In view of the present economic situation and the policy of maintaining high interest rates to combat inflation, are funds really available in the private market for Chrysler?

Mr. GREENWALD. As we see our prospects, there are ample funds in the market considering that we have the capability of going even beyond the United States for such funds.

Senator EAGLETON. There is considerable concern that these enormous loans to Chrysler will dry up the money market to the disadvantage of other businesses, particularly small businesses. What analysis has Treasury made, Mr. Altman, of the overall availability of money?

Mr. ALTMAN. Senator, we don't think that is a problem. Total credits supplied to the U.S. economy in 1980 will be $450 billion and the amount of credit—new credit—supplied to Chrysler will approximate $2 billion.

So we don't think that the drain on the credit availability of the economy represented by this legislation and the financing in it represents any serious problem for small business or Chrysler in general.

APPROPRIATION LANGUAGE

Senator EAGLETON. Mr. Altman, the subcommittee has been advised that the Department wants appropriation language considerably different from that transmitted by the President. Do you have, for the record, the revised bill language and why is it necessary to revise the language?

Mr. ALTMAN. Yes, I have the language and there was some confusion last night in the House Appropriations Subcommittee concerning the transmission by the administration of the appropriation request. Basically, the transmission covered fiscal year 1980 and was silent on subsequent years. It was fine insofar as it went, but the need, the legislation needs a one-time appropriation not subject to fiscal year limitation, as I tried to cover in my testimony.

We are asking for three things: A one-time appropriation of the authority in the full amount of $1.5 billion, covering a full period here through 1991; second, a one-time appropriation, also through that period, of any sums that might become necessary to be paid should there be default; and, lastly, of course, the $1½ million to cover administrative expenses of the Treasury.

I want to stress that the full committee on the House side, as I understand it, will report out legislation encompassing those three points and we hope the subcommittee will, too.

BUDGETARY IMPACT OF PROPOSED LANGUAGE

Senator WEICKER. What is the budgetary impact of this new language?

Mr. ALTMAN. There is no budgetary impact unless there is a default in payments. We don't expect there will be a default, so we don't expect there will be any budgetary impact, as there has not been in the New York City program or many other programs which have worked.

Senator WEICKER. But you and I both agree from the point of view of good fiscal practice, as I understand it, the preparation of the budget should deal with a worst-case basis.

Mr. ALTMAN. Well, it represents what the private sector would call a contingent liability. However, the way the Federal budget is constructed, there won't be any outlays or other cost represented by this legislation; so there won't be any budget impact.

There are approximately $400 billion of Federal guarantees outstanding. They are described in detail in the analysis. But none of those are outlays and, therefore, none of them are included in the budget.

AVAILABILITY OF FOREIGN FUNDS

Senator WEICKER. One question, only because I was interested in the answer you gave to Senator Eagleton, Mr. Greenwald. I didn't want to let it go by without commenting on it. You indicated the availability of funds outside the markets here in the United States. I wonder if you would just elaborate on that for a moment.

Mr. GREENWALD. I was only thinking in these terms: That today, Chrysler has lenders in Japan, in Europe, in Canada, and in the United States, and all of those banking institutions in those locations are all deeply involved with Chrysler at present and, to that extent, all of them in one form or another represent interested parties.

Senator WEICKER. You weren't making any particular reference to the possibility of an equity position in your corporation by any foreign agents, would you, for raising these funds?

Mr. GREENWALD. No, I was not, Senator. I might comment that in the past, I should say we continued to look for prospects that could potentially involve foreign manufacturers, but these tend to take the fonn of supply contracts from them to us.

ANALYSIS OF CHRYSLER BILL

Senator WEICKER. Mr. Chairman, I would like printed in the record an anlysis of the Chrysler bill by the minority staff of the Senate Budget Committee.

Senator EAGLETON. It will be printed at this point.

[The document follows:]

CHRYSLER CORPORATION LOAN GUARANTEE

SUMMARY OF ANALYSIS

MINORITY STAFF, SENATE BUDGET COMMITTEE

DECEMBER 17, 1979

The Senate will soon be considering the Chrysler Corporation Loan Guarantee legislation. It should be noted that Chrysler's financial predicament is deteriorating rapidly and the company now says an immediate "interim" investment is needed from the Federal Government. Chrysler now can no longer comply with the Administration's approach, which would require that the company first obtain additional investments from other vested interests (bankers, suppliers, employees, and other groups) prior to receiving the Administration's proposed loan guarantees. Because such hasty action is being requested of the Senate, this summary of analysis was prepared to help focus discussion on four key questions:

A. Is Chrysler viable as a full-line automotive company with Federal assistance, or will such assistance only lead to more cost and more pain to all parties when the inevitable bankruptcy occurs at some point in the future?

B. What is the potential magnitude of financial need which might be required of the Federal Government?

C. What are the benefits or costs which may be derived from the investment by the Federal Government?

D. What is the risk that a Federal investment will be viewed as a precedent, and what is the potential future impact of that precedent?

* * *

A. IS CHRYSLER VIABLE?

1. Lost Money During Boom Years: For the years 1976-1979, the U. S. economy and the auto industry have both been through the longest boom in post-war history--yet for these four years, Chrysler will lose over $700 million.

2. Greater Stress and Competition Ahead: It appears that the immediate future will be marked by (a) a general economic slowdown worldwide; (b) continued high levels of interest rates; and (c) potential gasoline shortages. These recessionary conditions will create general stress for many industries, but the long-run outlook for the automotive industry is particularly clouded by uncertain sales, especially of the lower mileage autos, and by the prospect of greater price and product competition as the overall unit sales in the industry, which has already slowed, slows further. This will be especially true as foreign manufacturers of high mileage autos seek greater U. S. sales to offset lower sales in other markets.

3. Foreign Cost and Price Advantages: According to a GAO study produced in the summer of 1979, foreign auto producer costs and prices presently compare favorably with U. S. manufacturers as these producers can manufacture and ship an automobile to the U. S. for approximately $500 less than domestic manufacturers can make the product (lower foreign wage rates--$9.00 per hour versus $15.00 per hour; higher foreign productivity). As a result of this cost advantage, foreign producers have limited price increases on 1980 models to less than 3 percent, while U. S. producers have raised list prices on similar models an average of 15 percent and still lost money in this segment of the market.

4. Chrysler Losses: Chrysler lost $300 million in the last economic downturn (1974-1975) and has already lost a record-breaking $700 million in the last six months. Even with the Federal guarantee, the company is expected to lose approximately $2 billion or more for the years 1979-1980. The company is less able to withstand economic and competitive pressures than at any time in its history as it has fewer financial resources, a continually decreasing number of dealers, and a declining market share.

5. Limited Financial Resources: At September 30, 1979, Chrysler's financial condition had deteriorated to the extent that it was in default under borrowing agreements with lenders. Such default involves primarily violations of the terms of various borrowing agreements concerning working capital, ratio of current assets to current liabilities, and debt/equity ratios. (a) Working Capital: In recent years, the company has had available working capital (current assets in excess of current liabilities) totaling over $1 billion ($1.08 billion at December 31, 1978). By September 30, 1979, working capital had been cut by 65 percent to the level of only $355 million, below the $600 million limit in its agreements. Companies use working capital to finance new capital expenditures and to provide supplier credit. The further reduction in working capital in coming months as a result of Chrysler's losses will add to Chrysler's financing needs. (b) Debt/Equity: The company now has over $2.25 of debt for every $1.00 of equity, a figure 60 percent higher than the level nine months ago. By December 31, this ratio will be substantially higher as the fourth quarter loss further cuts the equity level. By comparison, at September 30, 1979, the same time that Chrysler had a debt/equity ratio of 2.25, Ford showed only $1.32 of debt for every $1.00 of equity, and General Motors had $0.76 of debt per $1.00 of equity. (c) Retained Earnings: In its fifty-five-year history, Chrysler built up retained earnings (earnings not paid out as dividends but retained for future investment and other corporate needs) totaling $1.6 billion by December 31, 1978. Yet nine months later, those retained earnings had been cut almost in half to only $873 million. It is likely the corporation will lose another $400 million in the fourth quarter, further eroding the company's financial condition. Chrysler's losses and corresponding reduction in internally generated funds come at a time when its capital spending needs are greatest. Its ability to endure these losses, even with government aid, and emerge as a viable company depend more than ever before on its future profitability.

6. Lost Dealers: In recent years, the company has shown a dealership network which numbered 4,800 or more in each of the preceding four years. By October 31, 1979, the company had lost 300 of those dealers. The financial stability of the remaining dealers is not known.

7. Declining Market Share: Although Chrysler has had a generally declining market share for ten years (in 1970 it had 14.6 percent of total sales including imports, or 19.0 percent excluding imports), the company reached a low point during the previous recession in 1975. That low point was 12.3 percent of the total market. Today that number has dipped to well below 9 percent. Recapturing this lost market share, even back to 9 percent or 10 percent, will be extraordinarily difficult because of industry competition, Chrysler's limited financial, production and engineering resources, its lost dealer network, and its eroded consumer confidence. Chrysler would argue that the regained market share will come at the expense of foreign importers, due to the company's increased production of small cars.

8. Required Market Share For Profitability: Not only has Chrysler's share of market declined sharply, but since 1978 its unit costs have risen and its pretax unit profits have declined. Lower per unit profits have caused the production level required for the company to make a profit, known as "the breakeven point," to increase to a level that is presently greater than the company's production capacity. Moreover, according to a study by the New York investment firm of Drexel Burnham, with the company's present cost structure, it requires between 14½ and 15½ percent of market share to break even, which is substantially higher than even the 12 percent market share projected in Chrysler's own plan. Further, these calculations do not include the effect on overhead of the interest costs of the proposed "bailout." Even if Chrysler were to return to the pretax margin that existed between 1974 and 1978, the company requires a 12½ percent share of the auto and truck market to be profitable, which is still higher than Chrysler's own market share projections through 1985.

9. Product Mix For Profitability: Product mix is very important to the overall profitability of domestic automobile producers because the profit margins (profit per unit) on large cars are substantial, while U. S. companies tend to lose money on compact and subcompact cars. The shift in consumer preferences to small, low-margin cars will limit the profitability of all domestic producers and will place the greatest burden on those producers with sales concentrated in the small car market. Through August, 1979, 69 percent of Chrysler's sales were low margin compact or subcompact cars, as compared with 52 percent for Ford and 32 percent for General Motors. While Chrysler's plan indicates they expect to make a profit in the small car market, Chrysler's costs are higher than its competitors (10 percent higher than General Motors, according to the Boston Consulting Group) and, as a result, the company has a distinct pricing and profitability disadvantage.

A sample financial plan contained in Chrysler's September 15 proposal projects that by 1982 only 65 percent of its sales will come from small cars, which would result in a loss of $42 million for those sales, while 35 percent will be from sales of family-size cars. It is this large car segment that is expected to contribute 86 percent of its profits in that year. Yet, industry analysts universally believe that large cars are expected to decline as a proportion of total industry sales between now and 1982. For Chrysler to achieve its sales growth in this market, it would have to increase market share from its present 7.8 percent to 12.7 percent. This market share gain must be achieved in the face of 1 million units of surplus industry-wide capacity for these models. Because it appears likely that Chrysler will fall short of its goal, and because the bulk of Chrysler profits is expected from this segment, Chrysler's profit is likely to fall short of its forecast.

* * *

B. WHAT IS THE POTENTIAL MAGNITUDE OF FINANCIAL NEED WHICH MIGHT BE REQUIRED OF THE FEDERAL GOVERNMENT?

1. History of Questionable Projections: Following 1979 losses estimated at $1.1-$1.2 billion, Wall Street automotive analysts now project Chrysler losses for 1980 at $800 million. This number is significantly higher than the October 17 plan by Chrysler ($482 million) or the Treasury Department adjusted analysis ($659 million) or even the losses under most of the alternatives looked at by the Senate Banking Committee. Similar doubts are raised by Wall Street analysts regarding Chrysler's optimistic projection of its market share over the next four years.

The numbers above illustrate a problem which has distressed many automotive analysts, commercial bankers, and underwriters; namely, that the company has consistently made exceedingly optimistic projections about its future profitability and cost-saving efforts. Two examples are cited below.

a. In 1978, for example, when the company sold $250 million in preferred stock, Chrysler was forecasting $1.7 billion in earnings between 1978 and 1982. One year later, analysts now expect the company to lose over $1.1 billion in 1979 alone, plus lose $800 million in 1980.

b. As another example, in 1975 the company reported cost saving capabilities which would enable Chrysler to be profitable in a 6.0 million unit sales year. These cost-cutting measures were clearly overstated, and there is some question as to whether or not the company today is profitable at 9.0 million domestic units.

2. Uncertain Total Capital Needs: In June, 1978, the company filed a legal document as part of a preferred stock sale, and this document stated that Chrysler's expected capital expenditure program for the next five years to modernize plants and develop and bring new products to market was about $7.5 billion. This Chrysler document went on to say, "These requirements for funds present risks as they may cause cash flow problems and will place a considerable strain on Chrysler's capital resources... The timing, size and availability of outside financings are not certain...and an inability to obtain additional financing would result in competitive disadvantages relative to its major competitors." The $7.5 billion capital expenditure plan was to cover the five years 1979-1984. Now Chrysler says that its capital spending needs have grown to a total of $13.6 billion for the years 1980-1985. Although the five-year periods are not identical, increasing the five-year capital budget by 80 percent only one year later seems extraordinary. Funds for the five-year budget must come from depreciation and amortization, any future earnings retained, outside financings, or the possible sale of properties or subsidiaries. Given that many properties and subsidiaries have already been sold, and given the unlikely prospect of near-term profits, clearly most of the capital spending program will have to be financed by outside sources. To the extent that funds from outside sources will be necessary just to provide day-to-day working capital, more and more of the burden for capital funds will fall on the Federal Government to the extent that the projected level of the capital budget is maintained.

3. Auto Sales Projections: Even if we assume the total U.S. auto sales average 10 million units for each of the next four years, it is difficult to project that Chrysler's share of that market will rise substantially beyond its present 8-9 percent. General Motors has beaten Chrysler to the market with a front-wheel drive compact car, with Ford's Erika not far behind, and General Motors will be three years ahead of Chrysler in a new downsized intermediate car. Further, competition is expected from foreign manufacturers. Based on a lower market share, the Banking Committee analysis indicates Chrysler's real net financial needs over the next four years may be closer to $5 billion than the $4 billion projected.

4. Truck Projections: Even the higher $5 billion need mentioned above includes an assumed rise in market share for Chrysler trucks. The truck market is one-key to Chrysler's profitability as Chrysler has stated that one-third of its profits come from its truck sales. In light of new Ford and General Motors products, and in light of new truck production capacity (for example a new

General Motors plant opening in 1980 in Shreveport), Wall Street analysts believe Chrysler will find it difficult to hold market share, much less increase its share of this market. If Chrysler only remains constant in this market, the company would lose an additional $1 billion over four years and its capital needs would rise to a total of $6 billion for these four years.

5. Summary of Financial Need: No specific conclusions are reached to pinpoint the total amount of funds the federal Government might ultimately spend should it get involved in the Chrysler bailout. Clearly all the risks point to a significantly higher level, not lower level, than that projected by either the company, the Administration, or even the Senate Banking Committee. It would appear that the need to be financed by the Federal Government alone might well exceed several billion dollars if the Chrysler capital spending budget is pursued and if more realistic industry and market share projections are used.

* * *

C. WHAT ARE THE BENEFITS AND COSTS FROM A GOVERNMENT GUARANTEE FOR CHRYSLER?

1. Effect on Domestic Employment in the Auto Industry: The auto industry already has laid off 115,000 workers. By January, this number is expected to grow to 190,000, bringing total layoffs to 25 percent of the industry's workforce. This is a result of declining unit sales not specific financial stress in any one company. The auto industry is expected to lay off an additional 200,000 workers in 1980--again due to the projected impact of recession on industry sales. This will occur with or without Chrysler.

2. Effect on the Distribution of Employment in the Auto Industry Among Major Domestic Producers: Of the total 115,000 layoffs to date, 46,000 were General Motors workers, 36,000 were Ford workers, and 30,000 were Chrysler workers. While the Chrysler layoffs account for a relatively larger proportion of the company's total hourly workforce (27 percent), compared to 18. percent for Ford, and 10 percent for General Motors, both General Motors and Ford have idled larger numbers of workers.

Because of the nature of Chrysler's market--which is not import-oriented--it is clear that any lost Chrysler sales due to bankruptcy would be picked up by General Motors and Ford, rather than by imports. Of Chrysler's 885,000 cars sold to date in 1979, 600,000 (or about 70 percent) are large cars or the compact Aspen and Volare with which imports do not compete. The remaining sales are Omnis and Horizons, which are likely to continue in production in the event of bankruptcy. The elimination of Chrysler as a competitive force in the industry would permit Ford, General Motors, and American Motors Corporation to share the domestic auto sales among themselves, reducing the need for layoffs at these companies.

In other words, in the event of a Chrysler bankruptcy, a disproportionate share of Chrysler's workers will be at least temporarily unemployed, while more Ford and General Motors workers will keep their jobs. In fact, because the industry already has 1,000,000 units of excess capacity in the large and intermediate car market, it is conceivable that a shift in production to Ford and General Motors would help reduce unit costs for these companies, enabling them to accelerate price competition, and possibly increasing sales beyond the levels now projected for the industry through 1981. This may further reduce the need for layoffs at General Motors and Ford.

3. Overall Employment Effect of Chrysler Bankruptcy: Several studies have attempted to estimate the effect on national unemployment of a Chrysler bankruptcy. These numbers range from a worst case high of 500,000 jobs by Data Resources, Inc., to an estimate of 75,000 to 100,000 by the Department of the Treasury. The Treasury study further reduces its estimate to 45,000 to 60,000 should the bulk of Chrysler's production be absorbed by other domestic producers. Because of the structure of Chrysler's market, and the over-capacity conditions in the auto industry in general, this lower Treasury estimate appears to be the most likely.

   In terms of overall economic impact, the 45,000 to 100,000 jobs lost as a result of Chrysler should be compared to the number of jobs that result from the approximate 35,000 bankruptcies that occur each year. If each of these businesses have only three employees, the job loss due to the bankruptcies is equal to a Chrysler bankruptcy. Moreover, in an environment of severe credit restraint, a government guarantee to Chrysler will prevent other firms from obtaining financing, forcing them to discontinue their operations and the number of bankruptcies will increase. This will tend to add to other unemployment.

   This analysis is further supported by a Townsend-Greenspan study which concludes that, "...the macroeconomic effects on the U. S. economy as a whole would be more of a temporarily disruptive type, rather than a significant longer-term displacement of the economic activity to foreign producers... It strikes us that the feared secondary consequences of a Chrysler failure are likely to be quite minor."

4. Federal Cost: To the extent that the Chrysler is not viable, future loan guarantee commitments will be required to sustain the company's operations. In the event of the ultimate Chrysler bankruptcy, which some believe to be the most likely outcome, Federal loan guarantees to Chrysler will result in several billions of dollars of Federal outlays which will hit the Budget in the next few years. Any Federal guarantee is an entitlement and is, in effect, an uncontrollable Budget item.

   Another aspect of cost involves existing Federal benefit programs. Assuming that the prospective unemployment effects of a Chrysler bankruptcy in the future are not greater than the possible 100,000 or less unemployed now projected, Federal outlays for unemployment compensation and other unemployment-related programs would rise by $1.5 billion. Further, Federal revenues would decline by $1.25 billion, for a total increase in the deficit of $2.75 billion. These estimates are consistent with those made by the Treasury Department and Chase Econometrics. However, the automobile industry presently has excess capacity and other producers can more easily increase their work force (reduce planned layoffs) than if the industry were producing at peak capacity at the time of a Chrysler bankruptcy. At high utilization rates, other producers would have less flexibility to add shifts, and the unemployment effects might be greater.

   In the event that Federally-assisted financing succeeds in easing the company through a difficult period and no bankruptcy results, then the government will save the $1.5 billion it would have spent on unemployment-related programs; revenues will be $1.25 billion higher, for a total benefit of $2.75 billion. This compares to a total Federal cost of about $4.0-$4.75 billion in the event of bankruptcy at some point after the initial Federal investment. This $4.0-$4.75 billion includes both the initial Federal investment and the ultimate bankruptcy cost.

D. WHAT PRECEDENT AND WHAT IMPLICATIONS FOR THE FUTURE ARE INVOLVED HERE?

1. Lockheed No Precedent: The Chrysler situation is totally unlike the 1971 Lockheed loan guarantee--unlike in size, risk, and kind. Lockheed was basically a financially sound company with secure markets at home and significant export opportunities abroad. Moreover, the Federal Government was a major buyer of Lockheed's products. By some estimates, the government bought 95 percent of Lockheed's products, and as such, had a degree of control over Lockheed's prices, revenues and many of its costs. Lockheed had a one-shot, localized problem, the L1011 Tri Star, a wide bodied commercial jet which needed inventory financing while the company sought additional orders and sales. Chrysler's problems do not involve a temporary one-shot need, nor are its markets at home secure and growing, nor its export opportunities significant. Further, bankers rolled over existing Lockheed commitments while Chrysler's bankers have been hesitant to make any additional commitments. Clearly, Lockheed is not a precedent for Chrysler.

2. New York City/Amtrak Experience: Our experience with New York City and Amtrak has proven initial projections of need to be significantly understated, and has demonstrated the inability of the Federal Government to cut off the flow of funds once a commitment has been made.

In late 1975, the Congress intervened to prevent New York City from going bankrupt, providing short-term loans of up to $2.3 billion annually to cover seasonal shortfalls in revenues. It was understood at the time that this was to be a one-time piece of Federal assistance. When the June 30, 1978 expiration of the Seasonal Financing Act was approaching, New York City was still unable to meet its own financing needs and requested additional Federal assistance. This time government aid was in the form of long-term loan guarantee assistance totaling $1.65 billion. A third New York City aid request may be forthcoming in the immediate future. Many see New York's prospects for fully reentering the public credit markets by Fiscal Year 1982 to be very dim.

Our experience with Amtrak has not been any better. Under the original Amtrak legislation, there were authorized to be appropriated $40 million in Fiscal Year 1971, and in subsequent years a total of $225 million. The premise behind this legislation was that Amtrak could, and would, turn a profit, given interim emergency Federal assistance. Appropriations for Amtrak in Fiscal Year 1980 alone are over $800 million, and there is every indication that they will continue to rise in the future. The cost to the Federal Government in one year is now three times greater than the total amount of Federal aid originally contemplated.

3. British Leyland, Government Aid to An Automotive Company: Six years ago, British Leyland Motors found itself in straits similar to Chrysler's today. The company was unable to produce cars at competitive prices, had dwindling financial resources, as well as inefficient facilities, vehicle design and worker productivity problems. The British government stepped in with a $2 billion one-time aid package to get the company on its feet. Despite this assistance, the company has continued to decline and has lost half of its market share in the last five years. The British government now faces a request for an additional 1 billion pounds sterling (about $2.2 billion) in government assistance.

4. Absence of Criteria for Federal Aid: Concern has been expressed that because no criteria has been identified in the Chrysler aid request which would establish when

Federal assistance would be granted or denied that we are setting a precedent for many other potentially bankrupt situations. In 1978, over 30,000 bankruptcies declared in the United States. It is estimated that hundreds of thousands of employees were involved. If we aid Chrysler, how does the Federal Government decide which companies survive and which do not, which jobs are protected and which are not protected? Is the cumulative effect of 30,000 bankruptcies any less than predicted to result from a Chrysler failure?

5. Precedent for Other Corporate Problems: Should aid be given Chrysler, it would appear that Federal aid would be requested in the next few years by several other major U. S. corporations. Among these corporations would be Ford Motor Company, and the giants in the fast-deteriorating steel industry. Ford is losing significant money in U.S. operations and as said in the Economist magazine, "The best news for Ford these days would be a decision to allow Chrysler to go bankrupt. Provided it could elbow Volkswagen out of the way, Ford might then get Chrysler's small-car making capabity at knockdown prices. But, with a presidential election looming next year, the government is anxious to bail out Chrysler, despite Senate opposition. If Chrysler is saved, life will be that much tougher for Ford." As for the steel companies, their financial statements are not unlike Chrysler's of a few years ago. If Chrysler aid is provided by the Federal Government, choosing among future requesters will be extraordinarily difficult.

BUDGETARY TREATMENT OF DEFAULT APPROPRIATION

Senator EAGLETON. On the question of budget authority, about which Mr. Altman was testifying a few minutes ago, let me read into the record one sentence from a speech by Senator Muskie at page S19188 of the Congressional Record, December 19:

> Budget authority to cover potential default would be created at the outset under any appropriation which provides advanced authority to pay off possible defaults without any further action by Congress.

ABILITY TO ABSORB REQUEST

Two more questions and then I am through. Mr. Altman, what is the current appropriation and number of positions now authorized for the Office of Secretary of the Treasury? The purpose of that question is to elicit from you whether you can absorb in your current appropriation the 20 positions that you are justifying for this Chrysler loan guarantee business.

Mr. ALTMAN. Unfortunately not, Senator. There has been a virtual freeze, or actual freeze on the total positions in the Office of the Secretary of the Department for a couple years. Therefore, 20 positions are not available from the Office of the Secretary.

We are asking, as the question indicates, for a total of 20 slots and a million and a half dollars for that purpose. I assure you we have absolutely no interest in building permanent staff to oversee Chrysler or any other corporation. We could not just use our existing staff or a smaller annual appropriation; that is not going to be possible given the complexity of this.

As we have done in the New York City situation, our expenses each year decline as we become familiar with the task and are able to rely

less on outside consultants. I would expect that to be the case here. I think the total expenses requested in the first year would represent a peak of such expenses under the program and would decline thereafter.

Senator EAGLETON. In the New York case are there not 24 positions at a cost of $1 million? Why does this require 20 positions at a cost of a million and a half?

Mr. ALTMAN. In the Office of New York Finance for which I am also responsible, we have 17 people employed.

Secondly, the million dollars annual expense in New York is the lowest expense for a year since the program was initiated in 1975. We anticipate that the cost of the Chrysler program will also decline in the future.

SUBMISSIONS FOR THE RECORD

Senator EAGLETON. We have other housekeeping type questions. Could we submit those to you in writing? On receipt, the answers will be inserted in the record.

Mr. ALTMAN. Yes, of course.

[The questions and answers follow:]

CHRYSLER CORPORATION LOAN GUARANTEE PROGRAM ADMINISTRATIVE EXPENSES

Question. The justification for the $1,518,000 indicates that 20 positions are required to administer the Chrysler loan guarantee. Do you have a staffing chart that details the job title, grade, and annual salaries of these 20 positions?

Answer.

Postion title	Grade	Number	Annual salary	Total amount
Director	16	1	$47,889	$47,889
Financial analyst	15	1	40,832	40,832
Administrative accountant	15	1	40,832	40,832
Attorney	15	1	40,832	40,832
Financial analyst	14	1	34,713	34,713
Financial economist	14	1	34,713	34,713
Accountant	13	1	29,375	29,375
Program analyst	13	1	29,375	29,375
Financial economist	13	1	29,375	29,375
Accountant	12	1	24,703	24,703
Program analyst	12	1	24,703	24,703
Financial analyst	12	1	24,703	24,703
Financial economist	11	1	20,611	20,611
Financial research analyst	9	1	17,035	17,035
Secretary (stenography)	8	1	15,423	15,423
Secretary	7	1	13,925	13,925
Secretary	6	3	12,531	37,593
Secretary	5	1	11,243	11,243
Total, salaries		20		517,875
Less hiring lapse (40%)				210,875
Total, paid salaries (fiscal year 1980)				307,000

Question. How will these 20 positions be distributed to the 5 tasks mentioned on pages 4 and 5 of the justification?

Answer.

	Positions		
	Total	Professional	Secretarial
Tasks:			
Review of operating plans	5.5	3.5	2.0
Review of financing plan	5.5	3.5	2.0
Findings of reasonable prospect of repayment	3.0	2.0	1.0
Payments to the Government	2.5	2.0	.5
Reports to Congress	1.5	1.0	.5
Overhead	2.0	2.0	
Total	20.0	14.0	6.0

Question. What is the current appropriation and number of positions now authorized for the Office of the Secretary of the Treasury?

A. How many of those positions are now vacant?

B. How many positions are assigned to the Assistant Secretary for Domestic Finance?

Answer. For fiscal year 1980, the salaries and expenses appropriation for the Office of the Secretary of the Treasury has budget authority of $30,700,000 and 831 permanent positions (of which 70 are assigned to the Assistant Secretary for Domestic Finance). As of November 30, 1979, the salaries and expenses account has 99 vacancies of which 3 vacancies are in the domestic finance area.

Question. Am I correct that there are now 24 positions assigned to the New York City guarantee program at a cost of approximately $1 million? Why does it cost 50 percent more to administer the Chrysler program?

Answer. The New York City loan guarantee program has a fiscal year 1980 appropriation of $1,022,000 in budget authority and 24 permanent positions. However, in its first full year of operation (fiscal year 1977), the New York City program had a budget of $1,250,000. Over the past 4 fiscal years, the New York City program's budget has decreased $250,000 in spite of the recent inflationary trends. Therefore, the apparent 50-percent difference in cost between the two programs is an aberration that results from heavy use of contracts in the start-up phase of the Chrysler program.

Since it will take some time to bring the new staff on board, Treasury in fiscal year 1980 will have to rely on outside consultants. As the staff takes over the use of consultants will decrease. This is the same pattern as the New York City program which used $921,000 in consultants the first year of operation and has reduced that cost to $291,000 in fiscal year 1980.

Question. The Congress has provided that these guarantees be administered by a control board composed of the Comptroller General, and the Chairman of the Federal Reserve Board, in addition to the Secretary of the Treasury. What effect does the administration by a board have on your estimates for administrative expenses?

Answer. The control board has no impact on the estimate for administrative expenses. Servicing the board will result in additional work requirements but we believe that there is adequate flexibility to meet these needs within our estimate. It is assumed that the board members will absorb their own staff costs within their own budgets.

Question. Nearly two-thirds of the request for administrative expenses are for other services (contracts). There is nothing in the justification that explains the need for more than $1 million for contracts. Is the Treasury contracting out functions that ought to be administered by Federal employees, or what is that basis for this request?

Answer. Recognizing that it would not be reasonable or cost effective for the start-up phase of the Chrysler program to put in place in the Treasury Department all of the expertise necessary to conduct this activity a large percentage of funds requested will provide for contractual services with experts in the private sector. For example, a private accounting firm will be contracted to assist the Office of Chrysler Finance in adminstering the loan guarantee program. Other contracts will be used to provide legal services, auditing of financial documents, and advising the Treasury on other aspects that are outside the expertise of the staff of the Office of Chrysler Finance. It is anticipated that over 3 or 4 years the large dependence on outside contractors, legal and accounting, will be phased down and replaced with less expensive in-house expertise.

Question. When we had the guarantees for Lockheed, the General Accounting Office had a pernament audit group at Lockheed. Will Treasury have auditors at Chrysler to insure that the funds provided by the guarantee are being used correctly?

Answer. Treasury will obtain the contractual services of an audit firm during the initial phases of the Chrysler program and will then convert to in-house audit expertise to insure that various criteria are met before loan guarantees are issued. At present, Treasury does not foresee setting up an audit group at Chrysler.

CONCLUSION OF HEARING

Senator EAGLETON. This concludes the hearing on the Chrysler Corporation loan guarantees program. Thank you, gentlemen.

Thank you, Senator Weicker.

[Whereupon, at 10:02 a.m., Thursday, December 20, 1979, the hearing was concluded and the subcommittee was recessed, to reconvene subject to the call of the Chair.]

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